FRANKLIN TEMPLETON

Franklin U.S. Government Ladder 1-10 Year SMA

Commentary | as of June 30, 2026

Key Takeaways

- **Markets**: Some of the risk aversion that had characterized financial markets at the end of the previous quarter eased during the second quarter, although geopolitical developments remained a key focus. The Middle East conflict continued to drive sentiment through the quarter, with markets reacting to shifting news around negotiations, before the United States and Iran signed a 14-point Memorandum of Understanding (MOU) in late June. The MOU formalized a ceasefire, established a 60-day negotiation framework and included provisions to restore shipping through the Strait of Hormuz. The US dollar was modestly stronger over the quarter, appreciating against most other currencies. The Federal Reserve (Fed) kept policy rates unchanged, but its tone became more hawkish overall as internal disagreement over the easing bias increased; minutes suggested rates could remain unchanged for longer and the June meeting removed previous easing guidance despite a more dovish press conference from new Fed Chair Kevin Warsh. Fixed income volatility measures eased during the quarter as risk aversion retreated somewhat. Over the period, the US Treasury (UST) yield curve experienced a bear flattening, as short-to-intermediate rates rose more sharply than long-term rates. The one-month UST bill yield decreased by three basis points (bps) to 3.66%, while the three-month UST bill yield increased by 14 bps to 3.81%. Yields climbed by 38 bps to 4.17% on the two-year UST note, and by 29 bps to 4.23% on the five-year UST note. By the end of the period, the yield on the benchmark 10-year UST note had risen by 15 bps to 4.47%.
- **Contributors**: Underweight exposure to USTs with two years to maturity.
- **Detractors**: Overweight exposure to the five- and 10-year area of the UST yield curve.
- **Outlook**: The June Federal Open Market Committee (FOMC) meeting reinforced our view that the Fed is likely to remain on hold in the near term, although persistent inflation has increased the risk of further tightening. Our base case remains one of continued economic expansion rather than recession, with inflation proving more persistent than previously expected.

Performance Review

- Yield curve positioning contributed to performance primarily due to an underweight exposure to the two-year area of the UST yield curve. This was partially offset by overweight exposure to the five- and 10-year portions of the curve, which detracted from returns.

Outlook

- After a soft end to 2025, the US economy regained some momentum in Q1 as tech-driven investment and a rebound in federal spending following last October's government shutdown helped boost growth. However, consumer spending growth softened, with weakness in certain discretionary categories, suggesting that consumers may be turning more selective about their purchases. The labor market remains firm, though hiring gains stay concentrated in a narrow set of sectors, while consumer confidence and housing indicators remain subdued. While geopolitical developments and supply-side risks continue to warrant close monitoring, the greater near-term focus is on whether inflation pressures prove persistent enough to shift the Fed away from its current hold. Latest purchasing managers indexes have turned more stagflationary, as economic expansion is occurring at an increasingly inflationary price while employment expectations remain stagnant. Our base case is that the Fed remains on an extended hold, but policy is finely balanced.
- On interest rates, the June FOMC reinforced our view that the Fed is likely to remain on hold in the near term, but the balance of risks has shifted modestly toward further tightening. While Chair Warsh's press conference struck a dovish tone, the Committee's updated projections, the removal of easing guidance and rising market rate expectations suggest increasing support for a restrictive stance should inflation remain persistent. With inflation continuing to firm and real policy rates already drifting lower, a year-end or early-2027 rate hike cannot be ruled out. Our base case remains one of continued economic expansion rather than recession, with inflation proving more persistent than previously expected. While geopolitical developments and supply-side risk continue to warrant close monitoring, the greater near-term focus is on whether inflation pressures remain sufficiently strong to prompt additional Fed tightening.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of June 30, 2026

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	-0.17	-0.45	-0.45	1.19	2.47	-0.63	—	—	—	—	-1.06	6/30/2020
Pure Gross of Fees	0.20	0.29	0.29	2.71	4.00	0.86	—	—	—	—	0.43	6/30/2020
Benchmark	0.18	0.23	0.23	2.67	4.09	0.89	—	—	—	—	0.54	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg U.S. Intermediate Treasury Index

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

Franklin Templeton claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
To obtain specific information on available products and services or a GIPS Report, contact your Franklin Templeton separately managed account sales team at (800) DIAL BEN/342-5236.
Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit www.franklintempleton.com for the latest performance figures. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Fees: Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (1.5% is the maximum anticipated wrap fee for fixed income portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.
For fee schedules, contact your financial professional, or if you enter into an agreement directly with Franklin Templeton Private Portfolio Group, LLC ("FTPPG"), refer to FTPPG's Form ADV Part 2A disclosure document. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

What are the Risks?

All investments involve risks, including possible loss of principal. To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. **Fixed income securities** involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **Active management** does not ensure gains or protect against market declines. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the performance and result in greater fluctuation in value. The manager may consider **environmental, social and governance (ESG)** criteria in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated.

Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

The **Federal Open Market Committee (FOMC)** is the branch of the Federal Reserve that dictates U.S. monetary policy, specifically targeting the federal funds rate and managing open market operations.

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or portfolio. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the portfolio's selection process. Holdings are subject to change.

These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these materials be preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Professional or contact your sponsor firm.

Franklin Templeton (FT) is not undertaking to provide impartial advice. Nothing herein is intended to provide fiduciary advice. FT has a financial interest.

The **Bloomberg U.S. Intermediate Treasury Index** is composed of all public obligations of the U.S. Treasury. This index has an average current maturity of3.69 years (average maturity may vary over time). Source: Bloomberg Indices.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Separately Managed Accounts (SMAs) are investment services provided by Franklin Templeton Private Portfolio Group, LLC (FTPPG), a federally registered investment advisor. Client portfolios are managed based on investment instructions or advice provided by affiliated subadvisors of Franklin Templeton. Management is implemented by FTPPG, the designated subadvisor or, in the case of certain programs, the program sponsor or its designee.

© Franklin Templeton. All rights reserved.

FRANKLIN TEMPLETON